

Editorial Desk; Section A
The Gasoline-Powered Raise
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ITHACA, N.Y. -- What's a business to do when it can't hire and retain enough qualified workers? Economists, who have been described as often wrong but never in doubt, have a ready answer: simply offer higher salaries!

But at least some employers now appear to have discovered a far more effective tactic. For example, Arcnet, a wireless telecommunications company in Holmdel, N.J., figures to slash its recruiting and training costs by more than half with its recent offer of a "free" BMW sedan to every employee with at least one year of service. Several other companies have reported success with the same offer.

The cars are not really free, of course. Each one costs about \$9,000 a year in leasing and insurance fees. Employees who get one must declare that amount as additional income to the Internal Revenue Service.

So we're left with a puzzle: if the company had given not the car but an additional \$9,000 a year in salary, no one should have been worse off, and at least some should have been better off.

After all, any worker who really wanted a BMW could have spent the extra cash to lease one. And although the BMW is a fantastic car, those who happen not to want one would have come out ahead by having \$9,000 a year extra to spend on other things.

Why, then, do employers give cars instead of cash? Essentially the same question is raised by ordinary gift exchanges among family and friends. Why give your cousin a necktie he might never wear when you know you could trust him to spend the same money on something he really wants?

Some would answer that giving cash is just too easy, and is hence a less effective way of demonstrating affection than taking the time and trouble to shop for a gift. That explanation might work for small gifts, but it's surely a stretch for luxury cars.

A more promising tack has been suggested by Richard Thaler, an economist at the University of Chicago, who has observed that the best gifts are often things we're reluctant to buy for ourselves. Why, for example, is a man happy when his wife gives him a \$1,000 set of titanium golf clubs paid for out of their joint checking account? Perhaps he really wanted those clubs but couldn't quite justify spending so much. Having someone else make the choice allows him to enjoy his new clubs guilt-free.

One attraction of this way of thinking about gift giving is the plausibility of the advice it suggests for gift givers. Consider this thought experiment: Among each of the following pairs of items costing the same amounts, which item would be the more suitable gift for a close friend?

* \$20 worth of macadamia nuts (1 pound) or \$20 worth of peanuts (10 pounds)?

* A \$75 gift certificate for Lespinasse (one lunch) or a \$75 gift certificate for McDonald's (15 lunches)?

* \$30 worth of wild rice (4 pounds) or \$30 worth of Uncle Ben's converted rice (50 pounds)?

* A \$60 bottle of Mondavi Reserve Cabernet (750 ml) or \$60 worth of Cribari red (10 gallons)?

Most people would say the first item in each pair is almost surely the safer choice.

The same logic may explain why Arcnet and other employers in the fast lane are giving away BMW's. Perhaps you'd find it awkward to tell your Depression-era parents that you'd bought a car costing twice as much as a Toyota Camry. Or you may worry that your neighbors would think you were putting on airs if you bought yourself a new BMW. Or perhaps you've wanted to make such a purchase but your spouse insists on remodeling the kitchen instead.

A gift car from your employer wipes away all these concerns and more. From the company's perspective, an added advantage is that offering a luxury car to all long-term employees would kindle fewer resentments than the alternative strategy -- also recently in the news -- of offering cash signing bonuses only to new recruits.

Is the American labor market headed for a full-fledged barter system? Not likely, because the Arcnet strategy would make little sense for many employers. Burger King owners, for example, probably won't dangle used Ford Escorts the next time they find themselves short of counter help. They and other employers of unskilled labor are more likely to stick with the time-honored strategy of paying higher wages.

But in-kind compensation is almost sure to spread further among employers of the most highly skilled workers. It is these employers who have faced consistent labor shortages, and it's the people they are trying to hire and retain who have been so responsive to the new luxury offerings.

As the trend unfolds, the gifts are likely to change. The new strategy depends on the gift's ability to generate excitement. And excitement, always and everywhere, depends on context. Most readers were astonished when the young lawyer in John Grisham's 1991 novel "The Firm" was given a new BMW as a signing bonus, and the same tactic attracts

media attention even today. As more and more companies adopt this tactic, however, it will inevitably lose much of its punch.

To achieve the same impact, employers will have to raise the stakes. Can anyone doubt that talented consultants and software developers will eventually snub any employer who dares offer less than a Porsche 911?

Drawing (Paula Scher)